

FORT MADISON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

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Fort Madison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2007 election)</b>		
Dan Davis	President	2008
Peggy Booten	Vice President	2009
Duane Sherwood	Board Member	2007
George Wheeler	Board Member	2007
Judy Gerdes	Board Member	2008
Donald Ward	Board Member	2009
Denise Gray	Board Member	2009
<b>Board of Education</b>		
<b>(After September 2007 election)</b>		
Dan Davis	President	2008
Peggy Booten	Vice President	2009
Duane Sherwood	Board Member	2010
George Wheeler	Board Member	2010
Judy Gerdes	Board Member	2008
Donald Ward	Board Member	2009
Denise Gray	Board Member	2009
<b>School Officials</b>		
Dr. Kenneth Marang	Superintendent	2008
Greg Smith	Director of Student Services	2008
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2008
Gruhn Law Firm	Attorney	2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3060  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District, Fort Madison, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2009 on our consideration of Fort Madison Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fort Madison Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson* CC  
NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2009

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Fort Madison Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2008 FINANCIAL HIGHLIGHTS**

- The District's total combined net assets were \$19,267,212 as of June 30, 2008 compared to \$18,000,017 as of June 30, 2007, an increase of 7.11%.
- General Fund revenues increased from \$19,405,409 in fiscal 2007 to \$20,046,078 in fiscal 2008, while General Fund expenditures increased from \$19,657,447 in fiscal 2007 to \$20,428,604 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$1,875,230 in fiscal 2007 to \$1,492,704 in fiscal 2008.
- The increase in General Fund expenditures was due primarily to an increase in the expenditures in the instruction function.
- The October 2007 Certified Enrollment count resulted in an increase of 12.4 students, representing an increase of 0.52% compared to the prior year.
- The District ended the year with no long term debt outstanding except for early retirement and compensated absences.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Fort Madison Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Fort Madison Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Fort Madison Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Fort Madison Community School District Annual Financial Report**

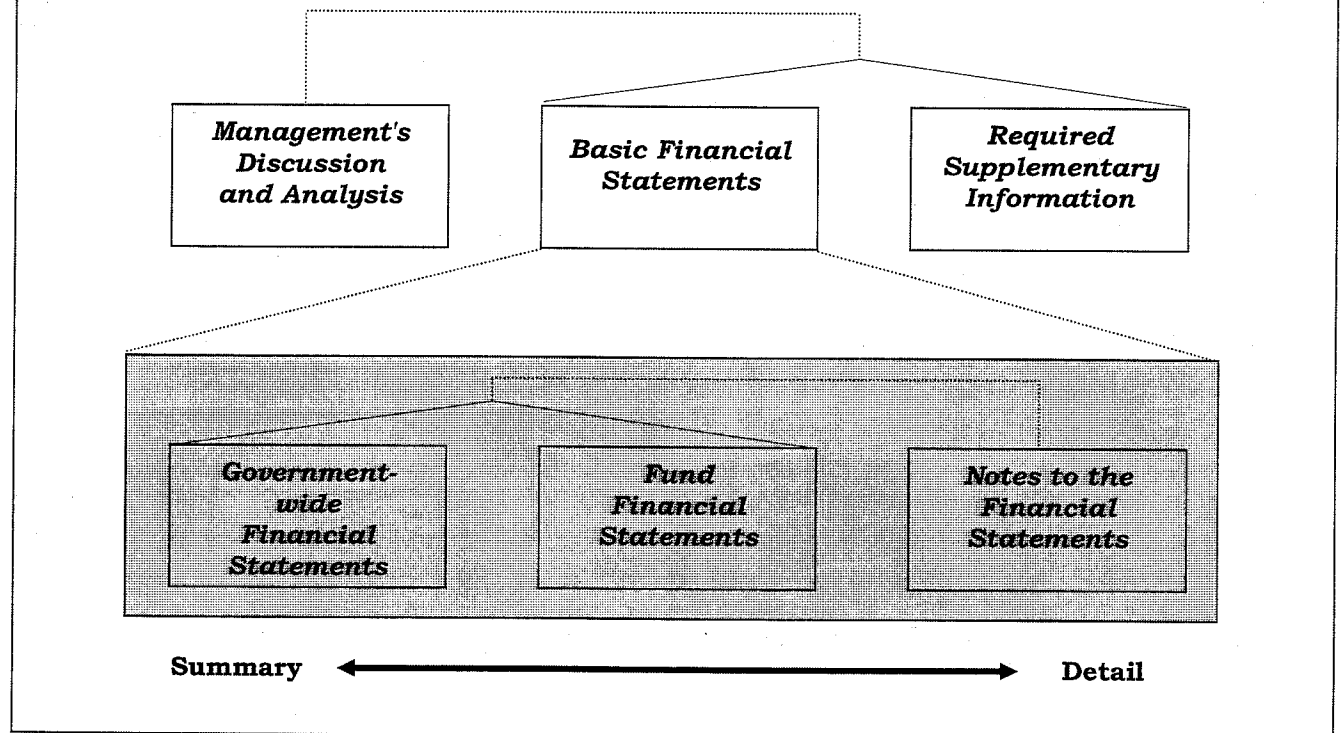


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.



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In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 18,389,373	19,825,047	297,429	323,839	18,686,802	20,148,886	-7.26%
Capital assets	9,872,447	9,292,273	88,797	91,004	9,961,244	9,383,277	6.16%
Total assets	28,261,820	29,117,320	386,226	414,843	28,648,046	29,532,163	-2.99%
Long-term obligations	265,916	573,488	0	0	265,916	573,488	-53.63%
Other liabilities	9,057,966	10,885,815	56,952	72,843	9,114,918	10,958,658	-16.82%
Total liabilities	9,323,882	11,459,303	56,952	72,843	9,380,834	11,532,146	-18.65%
Net assets:							
Invested in capital assets	9,872,447	9,292,273	88,797	91,004	9,961,244	9,383,277	6.16%
Restricted	7,788,212	6,801,668	0	0	7,788,212	6,801,668	14.50%
Unrestricted	1,277,279	1,564,076	240,477	250,996	1,517,756	1,815,072	-16.38%
Total net assets	\$ 18,937,938	17,658,017	329,274	342,000	19,267,212	18,000,017	7.04%

The District's combined net assets increased by 7.04%, or \$1,267,195, over the prior year. The largest portion of the District's net assets is the invested in capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$986,544, or 14.50% over the prior year. The increase was primarily a result of the increase in the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$297,316, or 16.38%. This decrease in unrestricted net assets was a result of the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2008 and 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 728,697	797,151	357,959	354,300	1,086,656	1,151,451	-5.63%
Operating grants and contributions and restricted interest	3,285,882	2,961,393	554,590	523,484	3,840,472	3,484,877	10.20%
Capital grants and contributions and restricted interest	0	108,325	0	0	0	108,325	-100.00%
General revenues:							
Local tax	6,597,956	6,398,660	0	0	6,597,956	6,398,660	3.11%
Local option sales and service tax	1,682,642	1,812,347	0	0	1,682,642	1,812,347	-7.16%
Unrestricted state grants	10,337,494	10,223,085	0	0	10,337,494	10,223,085	1.12%
Other	493,515	433,934	8,475	14,019	501,990	447,953	12.06%
Total revenues	23,126,186	22,734,895	921,024	891,803	24,047,210	23,626,698	1.78%
Program expenses:							
Governmental activities:							
Instructional	14,819,895	14,442,826	0	0	14,819,895	14,442,826	2.61%
Support services	5,509,123	5,522,478	0	0	5,509,123	5,522,478	-0.24%
Non-instructional programs	0	0	933,750	919,547	933,750	919,547	1.54%
Other expenses	1,517,247	1,257,288	0	0	1,517,247	1,257,288	20.68%
Total expenses	21,846,265	21,222,592	933,750	919,547	22,780,015	22,142,139	2.88%
Changes in net assets	1,279,921	1,512,303	(12,726)	(27,744)	1,267,195	1,484,559	-14.64%
Beginning net assets	17,658,017	16,145,714	342,000	369,744	18,000,017	16,515,458	8.99%
Ending net assets	\$ 18,937,938	17,658,017	329,274	342,000	19,267,212	18,000,017	7.04%

In fiscal 2008, local tax and unrestricted state grants account for 73.23% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.08% of the revenue from business type activities.

The District's total revenues were approximately \$24.05 million of which \$23.13 million was for governmental activities and \$0.92 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.78% in revenues and a 2.88% increase in expenses. The increase in expenses was related to the increase in other expenditure costs during the year.

### Governmental Activities

Revenues for governmental activities were \$23,126,186 and expenses were \$21,846,265.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 14,819,895	14,442,826	2.61%	11,790,350	11,645,083	1.25%
Support services	5,509,123	5,522,478	-0.24%	5,354,109	5,370,961	-0.31%
Other expenses	1,517,247	1,257,288	20.68%	687,227	339,679	102.32%
Totals	<u>\$ 21,846,265</u>	<u>21,222,592</u>	<u>2.94%</u>	<u>17,831,686</u>	<u>17,355,723</u>	<u>2.74%</u>

- The cost financed by users of the District's programs was \$728,697.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,285,882.
- The net cost of governmental activities was financed with \$6,597,596 in property tax, \$1,682,642 in local option sales and service tax, \$10,337,494 in unrestricted state grants and \$452,099 in interest income.

### Business-Type Activities

Revenues of the District's business-type activities were \$921,024 and expenses were \$933,750. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Fort Madison Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$9,331,407, above last year's ending fund balances of \$8,939,232. However, the primary reason for the increase in combined fund balances in fiscal 2008 is due to the increase in the Capital Projects fund balance.

### Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase during the year in tax and state grants resulted in an increase in revenues. The increase in revenues was offset by the District's increase in General Fund expenditures reducing the District's fund balance.
- The General Fund balance decreased from \$1,875,230 to \$1,492,704, due in part to increased expenditures during the year.
- The Capital Projects fund balance increased from \$6,567,361 to \$7,168,624, due to revenues exceeding expenditures during the year.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$342,000 at June 30, 2007 to \$329,274 at June 30, 2008, representing a decrease of 3.72%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$1,064,800 more than budgeted revenues, a variance of 4.63%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

The District manages or controls General Fund spending through its line-item budget. The certified budget exceeded in the instruction function due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested \$9.96 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6.16% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$650,152.

The original cost of the District's capital assets was \$18,183,050. Governmental funds account for \$17,988,763 with the remainder of \$194,287 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. The District's construction in progress totaled \$919,088 at June 30, 2008 compared to \$173,854 at June 30, 2007. This increase was the result of the purchase of 97.78 acres of land for a future school site.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 919,088	173,854	0	0	919,088	173,854	428.66%
Construction in progress	37,563	22,094	0	0	37,563	22,094	70.01%
Buildings	8,036,032	8,255,251	0	0	8,036,032	8,255,251	-2.66%
Improvements other than buildings	279,870	177,700	0	0	279,870	177,700	57.50%
Machinery and equipment	599,894	663,374	88,797	91,004	688,691	754,378	-8.71%
Total	\$ 9,872,447	9,292,273	88,797	91,004	9,961,244	9,383,277	6.16%

### Long-Term Debt

At June 30, 2008, the District had \$265,916 in other long-term debt outstanding. This represents a decrease of 53.63% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total District June 30, 2008	Total Change June 30, 2007-08
Early retirement	\$ 162,259	467,108 -65.26%
Compensated absences	103,657	106,380 -2.56%
Totals	<u>\$ 265,916</u>	<u>573,488 -53.63%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The October 2008 certified enrollment resulted in an increase of 24.2 students.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra K. Elmore, District Secretary/Treasurer, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

BASIC FINANCIAL STATEMENTS

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 10,873,034	252,381	11,125,415
Receivables:			
Property tax:			
Delinquent	133,202	0	133,202
Succeeding year	6,576,835	0	6,576,835
Accounts	25,223	16,277	41,500
Accrued ISCAP interest (Note 3)	15,021	0	15,021
Due from other governments	766,058	11,088	777,146
Inventories	0	17,683	17,683
Capital assets, net of accumulated depreciation (Note 4)	9,872,447	88,797	9,961,244
<b>Total Assets</b>	<b>28,261,820</b>	<b>386,226</b>	<b>28,648,046</b>
<b>Liabilities</b>			
Accounts payable	477,800	5,018	482,818
Salaries and benefits payable	1,989,423	43,540	2,032,963
Deferred revenue:			
Succeeding year property tax	6,576,835	0	6,576,835
Other	13,908	0	13,908
Unearned revenue	0	8,394	8,394
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement payable	124,211	0	124,211
Compensated absences payable	103,657	0	103,657
Portion due after one year:			
Early retirement payable	38,048	0	38,048
<b>Total Liabilities</b>	<b>9,323,882</b>	<b>56,952</b>	<b>9,380,834</b>
<b>Net Assets</b>			
Invested in capital assets	9,872,447	88,797	9,961,244
Restricted for:			
Talented and gifted	45,254	0	45,254
Beginning teacher mentoring	772	0	772
Salary improvement program	1,848	0	1,848
Additional salary, professional development	105	0	105
Professional development	34,156	0	34,156
Market factor	13,836	0	13,836
Market factor incentives	15,797	0	15,797
Management levy	272,421	0	272,421
Capital projects	7,168,624	0	7,168,624
Physical plant and equipment levy	117,154	0	117,154
Other special revenue purposes	118,245	0	118,245
Unrestricted	1,277,279	240,477	1,517,756
<b>Total Net Assets</b>	<b>\$ 18,937,938</b>	<b>329,274</b>	<b>19,267,212</b>

SEE NOTES TO FINANCIAL STATEMENTS.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
<b>Functions/Programs:</b>					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 8,879,646	280,711	2,157,842	(6,441,093)	0
Special instruction	3,451,567	121,453	143,006	(3,187,108)	0
Other instruction	2,488,682	326,533	0	(2,162,149)	0
	14,819,895	728,697	2,300,848	(11,790,350)	0
Support services:					
Student services	377,156	0	0	(377,156)	0
Instructional staff services	570,635	0	0	(570,635)	0
Administration services	2,054,519	0	0	(2,054,519)	0
Operation and maintenance of plant services	1,605,443	0	0	(1,605,443)	0
Transportation services	901,370	0	155,014	(746,356)	0
	5,509,123	0	155,014	(5,354,109)	0
Other expenditures:					
Facilities acquisitions	234,097	0	0	(234,097)	0
AEA flowthrough	830,020	0	830,020	0	0
Depreciation(unallocated)*	453,130	0	0	(453,130)	0
	1,517,247	0	830,020	(687,227)	0
Total governmental activities	21,846,265	728,697	3,285,882	(17,831,686)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	933,750	357,959	554,590	0	(21,201)
Total business-type activities	933,750	357,959	554,590	0	(21,201)
Total	\$ 22,780,015	1,086,656	3,840,472	(17,831,686)	(21,201)
<b>General Revenues:</b>					
Property tax levied for:					
General purposes				\$ 6,446,442	0
Capital outlay				151,514	0
Local option sales and services tax				1,682,642	0
Unrestricted state grants				10,337,494	0
Unrestricted investment earnings				452,099	8,475
Other				41,416	0
Total general revenues				19,111,607	8,475
Changes in net assets				1,279,921	(12,726)
Net assets beginning of year				17,658,017	342,000
Net assets end of year				\$ 18,937,938	329,274

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 3,246,598	6,959,215	667,221	10,873,034
Receivables:				
Property tax:				
Delinquent	117,816	0	15,386	133,202
Succeeding year	5,879,864	0	696,971	6,576,835
Accounts	23,015	0	2,208	25,223
Accrued ISCAP interest (Note 3)	15,021	0	0	15,021
Due from other governments	474,556	291,502	0	766,058
<b>Total Assets</b>	<b>\$ 9,756,870</b>	<b>7,250,717</b>	<b>1,381,786</b>	<b>18,389,373</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 380,971	82,093	14,736	477,800
Salaries and benefits payable	1,989,423	0	0	1,989,423
Deferred revenue:				
Succeeding year property tax	5,879,864	0	696,971	6,576,835
Other	13,908	0	0	13,908
<b>Total liabilities</b>	<b>8,264,166</b>	<b>82,093</b>	<b>711,707</b>	<b>9,057,966</b>
Fund balances:				
Reserved for:				
Talented and gifted	45,254	0	0	45,254
Beginning teacher mentoring	772	0	0	772
Salary improvement program	1,848	0	0	1,848
Additional salary, professional development	105	0	0	105
Professional development	34,156	0	0	34,156
Market factor	13,836	0	0	13,836
Market factor incentives	15,797	0	0	15,797
Unreserved	1,380,936	7,168,624	670,079	9,219,639
<b>Total fund balances</b>	<b>1,492,704</b>	<b>7,168,624</b>	<b>670,079</b>	<b>9,331,407</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,756,870</b>	<b>7,250,717</b>	<b>1,381,786</b>	<b>18,389,373</b>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 9,331,407
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,872,447
Long-term liabilities, including compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(265,916)
Net assets of governmental activities (page 13)	<u>\$ 18,937,938</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 5,834,448	1,682,642	763,508	8,280,598
Tuition	234,422	0	0	234,422
Other	353,832	248,802	385,156	987,790
State sources	12,541,859	0	0	12,541,859
Federal sources	1,081,517	0	0	1,081,517
Total revenues	20,046,078	1,931,444	1,148,664	23,126,186
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	8,734,519	0	377,312	9,111,831
Special instruction	3,449,199	0	0	3,449,199
Other instruction	2,156,689	0	329,698	2,486,387
	14,340,407	0	707,010	15,047,417
Support services:				
Student services	367,469	0	17,279	384,748
Instructional staff services	572,659	0	4,512	577,171
Administration services	2,038,854	0	38,588	2,077,442
Operation and maintenance of plant services	1,528,405	0	97,783	1,626,188
Transportation services	750,790	0	109,354	860,144
	5,258,177	0	267,516	5,525,693
Other expenditures:				
Facilities acquisitions	0	1,330,181	700	1,330,881
AEA flowthrough	830,020	0	0	830,020
	830,020	1,330,181	700	2,160,901
Total expenditures	20,428,604	1,330,181	975,226	22,734,011
Net change in fund balances	(382,526)	601,263	173,438	392,175
Fund balance beginning of year	1,875,230	6,567,361	496,641	8,939,232
Fund balance end of year	\$ 1,492,704	7,168,624	670,079	9,331,407

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 392,175

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal of assets in the year are as follows:

Capital outlays	\$ 1,220,998	
Depreciation expense	(638,199)	
Loss on disposal of assets	<u>(2,625)</u>	580,174

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 304,849	
Compensated Absences	<u>2,723</u>	<u>307,572</u>

Changes in net assets of governmental activities (page 14) \$ 1,279,921

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 252,381
Accounts receivable	16,277
Due from other governments	11,088
Inventories	17,683
Capital assets, net of accumulated depreciation (Note 4)	88,797
<b>Total Assets</b>	<u>386,226</u>
<b>Liabilities</b>	
Accounts payable	5,018
Salaries and benefits payable	43,540
Unearned revenue	8,394
<b>Total Liabilities</b>	<u>56,952</u>
<b>Net Assets</b>	
Invested in capital assets	88,797
Unrestricted	240,477
<b>Total Net Assets</b>	<u>\$ 329,274</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 357,959
TOTAL OPERATING REVENUES	<u>357,959</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	310,135
Benefits	39,575
Services	11,181
Supplies	560,211
Depreciation	11,953
Other	695
TOTAL OPERATING EXPENSES	<u>933,750</u>
OPERATING LOSS	<u>(575,791)</u>
NON-OPERATING REVENUES:	
State sources	11,084
Federal sources	543,506
Interest income	8,475
TOTAL NON-OPERATING REVENUES	<u>563,065</u>
Change in net assets	(12,726)
Net assets beginning of year	<u>342,000</u>
Net assets end of year	<u>\$ 329,274</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 340,686
Cash received from miscellaneous operating activities	20,511
Cash payments to employees for services	(352,552)
Cash payments to suppliers for goods or services	(542,861)
Net cash used in operating activities	<u>(534,216)</u>
Cash flows from non-capital financing activities:	
State grants received	11,084
Federal grants received	479,348
Net cash provided by non-capital financing activities	<u>490,432</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(9,746)</u>
Net cash used in capital and related financing activities	<u>(9,746)</u>
Cash flows from investing activities:	
Interest income	8,475
Net cash provided by investing activities	<u>8,475</u>
Net decrease in cash and cash equivalents	(45,055)
Cash and cash equivalents at beginning of year	<u>297,436</u>
Cash and cash equivalents at end of year	<u><u>\$ 252,381</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (575,791)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	53,070
Depreciation	11,953
Increase in inventories	(2,401)
Increase in accounts receivable	(5,156)
Decrease in accounts payable	(21,443)
Decrease in salaries and benefits payable	(2,842)
Increase in unearned revenue	8,394
Net cash used in operating activities	<u><u>\$ (534,216)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 252,381</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2008, the District received Federal commodities valued at \$53,070.

SEE NOTES TO FINANCIAL STATEMENTS.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Fort Madison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Fort Madison, Iowa, and the predominate agricultural territory in Lee, Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Fort Madison Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Fort Madison Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee, Des Moines and Henry Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in

the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the instruction function exceeded the amounts budgeted.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 10,255,123</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Services.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/2007	6/27/2008	\$ 0	15,021	0	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	600,000	600,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 173,854	745,234	0	919,088
Construction in progress	22,094	200,912	185,443	37,563
Total capital assets not being depreciated	195,948	946,146	185,443	956,651
Capital assets being depreciated:				
Buildings	13,654,954	215,490	0	13,870,444
Improvements other than buildings	407,302	120,591	0	527,893
Machinery and equipment	2,591,393	124,214	81,832	2,633,775
Total capital assets being depreciated	16,653,649	460,295	81,832	17,032,112
Less accumulated depreciation for:				
Buildings	5,399,703	434,709	0	5,834,412
Improvements other than buildings	229,602	18,421	0	248,023
Machinery and equipment	1,928,019	185,069	79,207	2,033,881
Total accumulated depreciation	7,557,324	638,199	79,207	8,116,316
Total capital assets being depreciated, net	9,096,325	(177,904)	2,625	8,915,796
Governmental activities capital assets, net	\$ 9,292,273	768,242	188,068	9,872,447
Business-type activities:				
Machinery and equipment	\$ 184,541	9,746	0	194,287
Less accumulated depreciation	93,537	11,953	0	105,490
Business-type activities capital assets, net	\$ 91,004	(2,207)	0	88,797



Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 13,949
Special	2,368
Other	2,295

Support services:

Instructional staff	16,880
Administration	11,460
Operation and maintenance of plant	8,549
Transportation	129,568

Unallocated depreciation

185,069  
453,130

Total governmental activities depreciation expense

\$ 638,199

Business-type activities:

Food services	\$ 11,953
---------------	-----------

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 467,108	0	304,849	162,259	124,211
Compensated Absences	106,380	103,657	106,380	103,657	103,657
Total	\$ 573,488	103,657	411,229	265,916	227,868

Early Retirement

The District offered a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed ten years of continuous service to the District in order to qualify for supplemental benefits. Employees who desired to elect early retirement under this program must have completed an application which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was based on their current employment classification. The supplemental benefit for administrators was \$25,000 and licensed employees was \$20,000. The supplemental benefit for classified employees was 50% of the current contract at the time of retirement. Early retirement benefits paid during the year ended June 30, 2008, totaled \$304,849. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$771,558, \$712,372 and \$682,479 respectively, equal to the required contributions for each year.

**(7) Risk Management**

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical, dental, vision, basic life and disability.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2008 were \$1,402,914.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Fort Madison Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$830,020 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the instruction function exceeded the amounts budgeted.

**(10) Construction Commitment**

The District has entered into various contracts for construction projects. As of June 30, 2008, costs of \$37,563 have been incurred against these contracts. The balance remaining at June 30, 2008 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2008

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 9,502,810	366,434	9,869,244	9,333,508	9,333,508	535,736
State sources	12,541,859	11,084	12,552,943	12,249,902	12,249,902	303,041
Federal sources	1,081,517	543,506	1,625,023	1,399,000	1,399,000	226,023
Total revenues	23,126,186	921,024	24,047,210	22,982,410	22,982,410	1,064,800
Expenditures:						
Instruction	15,047,417	0	15,047,417	14,274,076	14,500,000	(547,417)
Support services	5,525,693	0	5,525,693	5,340,450	5,600,000	74,307
Non-instructional programs	0	933,750	933,750	906,253	940,000	6,250
Other expenditures	2,160,901	0	2,160,901	1,708,961	2,600,000	439,099
Total expenditures	22,734,011	933,750	23,667,761	22,229,740	23,640,000	(27,761)
Excess(deficiency) of revenues over(under) expenditures	392,175	(12,726)	379,449	752,670	(657,590)	1,037,039
Balance beginning of year	8,939,232	342,000	9,281,232	8,755,877	8,755,877	525,355
Balance end of year	\$ 9,331,407	329,274	9,660,681	9,508,547	8,098,287	1,562,394

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,410,260.

During the year ended June 30, 2008, expenditures in the instruction function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2008

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 423,669	129,424	114,128	667,221
Receivables:				
Property tax:				
Current year delinquent	12,360	0	3,026	15,386
Succeeding year	545,461	0	151,510	696,971
Accounts	318	1,890	0	2,208
<b>Total Assets</b>	<b>\$ 981,808</b>	<b>131,314</b>	<b>268,664</b>	<b>1,381,786</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,667	13,069	0	14,736
Deferred revenue:				
Succeeding year property tax	545,461	0	151,510	696,971
Total liabilities	547,128	13,069	151,510	711,707
Fund balances:				
Unreserved	434,680	118,245	117,154	670,079
Total fund balances	434,680	118,245	117,154	670,079
<b>Total Liabilities and Fund Balances</b>	<b>\$ 981,808</b>	<b>131,314</b>	<b>268,664</b>	<b>1,381,786</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2008

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 611,994	0	151,514	763,508
Other	29,693	351,713	3,750	385,156
TOTAL REVENUES	641,687	351,713	155,264	1,148,664
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	377,312	0	0	377,312
Other instruction	0	329,698	0	329,698
Support services:				
Student services	17,279	0	0	17,279
Instructional staff services	4,512	0	0	4,512
Administration services	38,588	0	0	38,588
Operation and maintenance of plant services	97,783	0	0	97,783
Student transportation	30,504	0	78,850	109,354
Other expenditures:				
Facilities acquisitions	0	0	700	700
TOTAL EXPENDITURES	565,978	329,698	79,550	975,226
EXCESS OF REVENUES OVER EXPENDITURES	75,709	22,015	75,714	173,438
FUND BALANCE BEGINNING OF YEAR	358,971	96,230	41,440	496,641
FUND BALANCE END OF YEAR	\$ 434,680	118,245	117,154	670,079

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Special Education Club	\$ 104	7	0	111
Child Health Fund	11,697	807	4,750	7,754
Activity Account	1,120	571	291	1,400
Undistributed Funds	9,534	4,332	13,769	97
Vocal Music	760	2,062	2,278	544
Instrumental Music	1,474	14,625	14,922	1,177
History Day Fund	383	27	0	410
6th Grade Team	52	4	0	56
Industrial Tech	2,341	2,908	1,815	3,434
Family and Consumer	773	1,002	378	1,397
Student Activity	8,268	24,175	20,210	12,233
Employee Activity Account	347	823	654	516
Student Council	432	3,134	1,811	1,755
Library Club	1,990	760	1,382	1,368
Terrier Pride	10	0	10	0
Prairie fire	0	3,888	3,459	429
Science Activity - M.S.	0	1,086	996	90
Speech - Large Group	0	15	15	0
Vocal Music	1,278	90	0	1,368
Instrumental Music	1,147	235	403	979
Co-Curricular Act - H.S.	(9,723)	21,231	11,508	0
Gate Receipts	(8,076)	59,537	51,461	0
Soccer Coed	0	99	99	0
Soccer - Fund Raiser	906	735	0	1,641
Cross Country	0	895	468	427
Boys Basketball	0	51	51	0
Boys Basketball - Fund Raiser	705	160	470	395
Football - Fund Raiser	563	6,712	3,732	3,543
Baseball - Fund Raiser	(3,689)	18,612	15,178	(255)
Boys Track	250	380	630	0
Boys Tennis	150	50	135	65
Boys Golf	0	25	25	0
Wrestling	0	8,066	7,904	162
Wrestling - Fund Raiser	10,108	6,437	8,149	8,396
Girls Basketball-Fund Raiser	1,013	2,161	2,208	966
Volleyball - Fund Raiser	3,041	15,679	12,441	6,279
Softball	0	50	50	0
Softball - Fund Raiser	2,936	14,684	14,546	3,074

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Girls Track	250	733	983	0
GTR/BTR/CC Fund Raiser	167	4,674	6,104	(1,263)
Girls Tennis	222	35	131	126
Crimson & Black	1,145	134	0	1,279
Bloodhound Productions	0	1,892	1,892	0
Art Club	1,101	1,595	1,323	1,373
Student Activity Account	4,944	0	4,944	0
Foreign Language Club	789	4,439	4,768	460
FFA	8	466	474	0
Employee Activity Account	1,201	231	254	1,178
FCCLA	2,609	1,145	137	3,617
Business Pros of America	12	5,117	5,129	0
HS Student Government	92	0	62	30
Bus. Pros of Am. Jr Class	(30)	30	0	0
Key Club	5,507	3,098	4,801	3,804
Madisonian	6,714	11,937	5,971	12,680
Dist. Educ. Club	253	3,364	3,835	(218)
Machine Shop Vica	154	11	0	165
Auto Shop Vica	333	2,062	1,805	590
National Honor Society	1,238	301	0	1,539
Science Club	635	1,290	1,092	833
Student Concessions	193	38,596	38,627	162
Dance & Drill Team	206	382	0	588
Library Club	3,241	314	788	2,767
Class of 2007	(59)	59	0	0
Class of 2008	5,988	1,560	5,326	2,222
Class of 2009	1,644	5,214	2,376	4,482
Class of 2010	93	3,836	0	3,929
Class of 2011	0	233	0	233
Cheerleaders - Varsity	841	18,614	21,158	(1,703)
MDT Fundraising	78	6	0	84
Student Activity Account	2,061	6,203	3,360	4,904
Student Council Account	112	8	0	120
Special Education Club	2,052	6,229	5,648	2,633
Student Activity Account	5,048	4,998	3,836	6,210
Richardson PTO	(331)	521	190	0
Student Activity Account	7,825	6,271	8,486	5,610
Total	\$ 96,230	351,713	329,698	118,245

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 8,280,598	8,211,007	7,281,321	7,190,181	7,232,611
Tuition	234,422	202,458	161,163	174,045	105,802
Other	987,790	1,028,627	923,719	791,009	714,690
State sources	12,541,859	12,102,102	11,358,669	10,962,706	10,699,317
Federal sources	1,081,517	1,190,701	1,088,627	2,689,181	991,438
Total	<u>\$ 23,126,186</u>	<u>22,734,895</u>	<u>20,813,499</u>	<u>21,807,122</u>	<u>19,743,858</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 9,111,831	11,523,634	8,364,811	8,448,219	7,486,971
Special instruction	3,449,199	2,259,659	3,161,927	3,278,363	4,088,149
Other instruction	2,486,387	686,155	2,311,775	2,557,970	1,358,302
Support services:					
Student services	384,748	417,238	429,221	305,392	756,033
Instructional staff services	577,171	652,694	925,657	627,902	256,149
Administration services	2,077,442	1,776,244	1,548,184	1,322,744	1,196,868
Operation and maintenance of plant services	1,626,188	1,716,868	1,666,626	1,460,757	1,577,535
Transportation services	860,144	829,556	725,492	919,733	627,260
Non-instructional programs	0	0	0	0	5,578
Other expenditures:					
Facilities acquisitions	1,330,881	486,018	372,502	1,502,725	2,847,114
Long-term debt:					
Principal	0	0	0	0	20,000
Interest	0	0	0	0	5,205
AEA flow-through	830,020	809,284	755,127	744,835	757,872
Total	<u>\$ 22,734,011</u>	<u>21,157,350</u>	<u>20,261,322</u>	<u>21,168,640</u>	<u>20,983,036</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 08	\$ 265,635
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	86,048
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	441,170 *
SUMMER FOOD SERVICE PROGRAM	10.559	FY 08	16,288
			<u>543,506</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	FY 06	35,747
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-G	389,996
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-GC	5,171
			<u>430,914</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	1,354
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 08	4,494
			<u>5,848</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 08	<u>11,760</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 06	8,494
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 07	15,939
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 08	1,569
			<u>26,002</u>

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 07	62,425
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 08	133,938
			<u>196,363</u>
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 08	<u>37,815</u>
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 08	<u>143,006</u>
SPECIAL EDUCATION TECHNICAL			
ASSISTANCE	84.326	FY 08	<u>2,625</u>
TOTAL			<u>\$ 1,663,474</u>

\*Includes \$53,070 of non-cash awards.

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fort Madison Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 27, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fort Madison Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Fort Madison Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Fort Madison Community School District's financial statements that is more than inconsequential will not be prevented or detected by Fort Madison Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Fort Madison Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fort Madison Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Fort Madison Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Fort Madison Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Fort Madison Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2009



**NOLTE, CORNMAN & JOHNSON P.C.**  
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Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Fort Madison Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fort Madison Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Fort Madison Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Fort Madison Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Nolte, Cornman & Johnson PC  
NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2009

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Education Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fort Madison Community School District qualified as a low-risk auditee.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-08 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

More specific findings are as follows:

- Employee Activity Account is not a student run organization. The balance in the employee activity account should be transferred to the General Fund.

Response - The Employee Activity Account will be transferred to a more appropriate fund.

Conclusion - Response accepted.

II-B-08 Sponsor Procedures - We noted during our audit that a sponsor did not turn in collected receipts to the administration office for deposit in a timely manner.

The breakdown of control procedures for the receipting process becomes apparent as the sponsor maintains the collected revenue. The maintenance of the undeposited funds in the office provides a risk of loss due to possible theft, improper use or loss, as well as lack of reporting of the funds. The District is required to maintain records for the Student Activity Fund.

Recommendation - The District should take necessary steps to require all individuals to turn in collected money in a timely manner. All receipts should be deposited when received.

Response - The District does require all individuals to turn in collected money in a timely manner. The sponsor's lack of compliance with our procedures has been addressed directly with the sponsor. All coaches and sponsors are provided training sessions at the

beginning of the year regarding proper accounting procedures for Student Activity accounts.

Conclusion - Response accepted.

II-C-08 Grants - We noted during our audit, that expenditures for the Safe and Drug-Free grant were not always posted to the correct expenditure project code. We also noted that the Talented and Gifted revenue allocation was not broken out of the state foundation aid and property tax payments at the end of the year.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - In the future, the District will code the grant expenditures to the proper project code and will break out the Talented and Gifted revenue.

Conclusion - Response accepted.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amount budgeted in the instruction function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The District did amend the budget for 2007-2008. The District will continue to monitor the budget and amend when it is necessary.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - We noted during our audit that the District purchased gift cards for After Prom from the Student Activity Fund. Gift cards are considered cash and do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District will no longer purchase gift cards.

Conclusion - Response accepted.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-08 Financial Condition - We noted during our audit that there were four negative individual account balances within the Student Activity Fund totaling \$3,439.

Recommendation - The District should monitor these deficit accounts and ensure that purchases are not made without the sufficient funds to pay for them.

Response - The District does monitor deficit accounts and allows for purchases if they are pre-planned as a fundraising project. The deficits are accepted with the expectation that they be made whole and thus not written off.

Conclusion - Response accepted.